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AGT INTERNATIONAL, INC., Plaintiff, v. LEVEL 3 COMMUNICATIONS, LLC, Defendant.

Case No. 02-CV-684

UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF OHIO, EASTERN DIVISION

2002 U.S. Dist. LEXIS 21536*; *Copy. L. Rep. (CCH) P28,525

July 29, 2002, Decided

DISPOSITION: [*1] Plaintiff's Motion for a Preliminary Injunction denied.

COUNSEL: For AGT INTERNATIONAL INC, plaintiff: Douglas Langston Rogers, Vorys Sater Seymour & Pease, Columbus, OH.

For LEVEL 3 COMMUNICATIONS LLC, defendant: William H Heywood, III, Shumaker Loop & Kendrick, Toledo, OH.

For LEVEL 3 COMMUNICATIONS LLC, defendant: Michael J O'Callaghan, Shumaker Loop & Kendrick, Columbus, OH.

JUDGES: ALGENON L. MARBLEY, JUDGE, United States District Court. Magistrate Judge Kemp.

OPINION BY: ALGENON L. MARBLEY

OPINION

OPINION AND ORDER

I. INTRODUCTION

This matter is before the Court on the Plaintiff's Motion for a Preliminary Injunction. The Court held a hearing on the Motion on July 23 and July 24, 2002. Jurisdiction is proper pursuant to *28 U.S.C. §§ 1331*, *1332*, and *1338*.

Based on the arguments of counsel and the evidence presented at the hearing, the Court hereby **DENIES** the Plaintiff's Motion for a Preliminary Injunction.

II. FACTS AND PROCEDURAL HISTORY

To protect buried utilities, such as communication networks, states maintain what are commonly referred to as "one call centers." All public and private entities that own or maintain buried utilities must [*2] register the with one call center in the state in which they own such utilities. Parties planning construction that involves excavation must report to the proper one call center the date and location of the planned construction. The one call center in turn notifies its registrants, through the issuance of "tickets," of the dates and location of all such construction so that the registrants may take steps to protect their buried utilities. Once a registrant receives a ticket, the law grants the registrant a limited amount of time -- usually forty-eight hours -- to take action to protect the registrant's buried utilities, usually by marking the location of such utilities to prevent their disturbance during construction.

The Plaintiff, AGT International, Inc. ("AGT"), owns a copyright, and all of the attendant rights, in IRTH Software. [1] The IRTH Software was designed to help companies quickly and easily identify which tickets issued by one call centers actually effect the buried utilities of such companies.

1 AGT registered its copyright in the Irth Software with the United States Copyright Office effective June 25, 2002. The Copyright Registration Number assigned to the Irth Software is TX-552-4658.

[*3] The Defendant, Level 3 Communications, LLC ("Level 3"), is a public corporation that provides bandwidth and raw services that allow communication intensive companies to operate high performance networks. It owns and maintains a global network of fiber optic cable that provides the infrastructure for numerous companies in the internet and communications business.

In May 1999, AGT and Level 3 entered into a Software License Agreement ("Agreement"). Pursuant to the Agreement, AGT, as licensor, granted Level 3, as licensee, an "operating license" to use the IRTH Software. The Agreement provides, in relevant part at

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Section 2, "Scope of Use," Paragraph (b), "Operating License," the following: "Subject to the terms herein, Licensee is granted a perpetual nonexclusive license to install, store, load, execute, and display (collectively, 'Use') the Licensed Product for internal Use .... The Operating License hereby granted is independent of any support services Licensee may procure from AGT[.]" The "Licensed Product" is defined in the Product Schedule that is attached to the Agreement. The Product Schedule lists various "IRTH Software Components," for which Level 3 made one lump sum payment, [*4] and certain support and maintenance services for which Level 3 paid on an ongoing basis.

Among its provisions, the Agreement provides at Section 3, "Term," the following:

> This Agreement shall commence on the date last below written and shall continue in full force and effect for an initial period of three (3) years, unless terminated earlier in accordance with Section 13 ("Termination"), or otherwise rightfully terminated. Thereafter, the Agreement shall renew for successive one (1) [sic] periods unless terminated by either party in writing at least sixty (60) days prior to the renewal date.

The "date last written below" was May 11, 1999, such that the contract would continue in full force and effect until May 11, 2002, unless terminated earlier. Section 13, the "Termination" provision referred to in the "Term" provision, provides that, if either party defaults on any of its obligations under the Agreement, the non-defaulting party has the right, subject to certain exceptions, to terminate the Agreement. The proper format for providing notice of termination is set forth in Section 12, "Notice," and specifies: "Notices sent to either party shall be effective ... two [*5] (2) days after being sent by first class mail postage prepaid."

Section 8 of the Agreement deals with "Confidential & Proprietary Information." In Section 8, paragraph (c), "Acknowledgment," Level 3 acknowledged that the Licensed Product, "including any Documentation, source code, translations, compilations, partial copies and derivative works," contains confidential and proprietary information belonging exclusively to AGT or its licensors. During the hearing, a representative of Level 3 conceded that confidential and proprietary information included documents such as user guides, as well as the IRTH Software itself. In paragraph (d) of Section 8, "Covenant," Level 3 agreed that it would not use, commercialize, or disclose any confidential and proprietary information, except to certain parties approved by AGT. The last sentence of that provision states: "Upon termination, Licensee and AGT shall return or destroy all Confidential and Proprietary Information in its possession or control and cease all further use thereof."

The Agreement went into effect on May 11, 1999. Subsequently, the IRTH Software and its components were delivered to Level 3 at Level 3's facilities, installed, and [*6] paid for by Level 3. Thereafter, Level 3 used the IRTH Software and availed itself of various support services, including maintenance services.

On March 25, 2002, Level 3 received a notice of termination from AGT, delivered to Level 3 by certified mail. The notice was dated March 11, 2002, but it was postmarked March 21, 2002. The notice, which was signed by Daniel Casey, the President of AGT, stated, in relevant part:

> In accordance with Section 3 of the Software License Agreement, signed on May 11, 1999, this letter shall serve as AGT International's legal notice to terminate the Agreement.
>
> Level 3 has acknowledged that the software and related documentation provided under the Agreement is considered confidential and proprietary and shall continue to protect this information following the termination of the Agreement.
>
> Section 8(c) of the Agreement further requires all confidential and proprietary information under the Agreement to be returned to AGT or destroyed and all further use of the software to cease.

Another copy of the same letter, which was also postmarked March 21, 2002, was received by Level 3 on March 27, 2002.

By letter dated May 10, 2002, David [*7] Blake Couture, Level 3's Contracts Manager, responded to Mr. Casey's notice of termination. Mr. Couture's response stated, in relevant part:

> [Level 3] is in receipt of your notice to terminate the Software License Agreement between Level 3 and [AGT] .... Pursuant to Section 2(b) of the Agreement, Level 3 holds a perpetual license to Use the Licensed Product. As such, the specific grant of the perpetual

> license does not require Level 3 to return the Licensed Product following termination of the Agreement. Level 3 will continue to adhere to the confidentiality obligations to the extent that the Licensed Product contains Confidential and Proprietary Information of AGT.

Subsequently, Level 3 received a letter from AGT's counsel, dated May 28, 2002. In the letter, AGT's counsel indicated that AGT had validly terminated the Agreement by virtue of Mr. Casey's March 11 letter, and asserted that Level 3's continued use of the IRTH Software constituted a violation of the Agreement, as well as an infringement of AGT's copyright.

To date, Level 3 continues to use the IRTH Software twenty-four hours per day, every day. Each time Level 3 boots up one of its computers, the IRTH Software [*8] is loaded onto the computer's random access memory ("RAM"), thereby producing a copy of the software. Level 3 plans to continue to use the IRTH Software until September 1, 2002, at which point it will transition to using the software of one of AGT's competitors.

On July 12, 2002, AGT filed a Complaint against Level 3 with this Court. In its Complaint, AGT sets forth two causes of action: (1) copyright infringement, in violation of *17 U.S.C. §§ 1101 et seq.*; *and (2)* breach of the Agreement. On July 15, 2002, AGT filed its Motion for a Preliminary Injunction, seeking to enjoin Level 3 from continuing in its use and alleged copyright infringement of the IRTH software.

III. STANDARD OF REVIEW

In determining whether to issue a preliminary injunction, the district court typically must look at: (1) whether the movant has shown a strong likelihood of success on the merits; (2) the irreparable harm that could result to the movant if the injunction is not issued; (3) the possibility of substantial harm to others if the injunction is issued, and (4) whether the public interest would be served by issuing the injunction. *Rock and Roll Hall of Fame and Museum, Inc. v. Gentile Prods., 134 F.3d 749, 753 (6th Cir. 1998).* [*9] An injunction to prevent a defendant from engaging in an activity that infringes a plaintiff's copyright, however, is authorized by statute. *See 17 U.S.C. § 502.* [2] Thus, in the case of an injunction to prevent copyright infringement, the Court need only determine whether the plaintiff has satisfied the first element by demonstrating a strong likelihood of success on the merits. *Microsoft Corp. v. Action Software, 136 F. Supp. 2d 735, 738-39 (N.D. Ohio 2001)* (concluding that the plaintiff need only fulfill the requirements of the statute to get the injunction sought); *see United States v. Microsoft Corp., 331 U.S. App. D.C. 121, 147 F.3d 935, 943 (D.C. Cir. 1998)* ("It is clear that if a statute confers a right to an injunction once a certain showing is made, no plaintiff ... need show more than the statute specifies."). In particular, irreparable harm is presumed in actions for copyright infringement. *Apple Computer, Inc. v. Formula Int'l Inc., 725 F.2d 521, 525-26 (9th Cir.1984))*; *Microsoft Corp., 136 F. Supp. 2d at 739* (citing *Bourne Co. v. Tower Records, Inc., 976 F.2d 99, 101 (2d Cir. 1992)*; [*10] *Tree Pub. Co., Inc. v. Warner Bros. Records, a Div. of Time-Warner, Inc., 785 F. Supp. 1272, 1276 (M.D. Tenn. 1991)* ("In copyright infringement cases, the finding of a substantial likelihood of success on the merits raises a presumption of irreparable harm.") (citing *Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1254 (3d Cir.1983).*

> 2 *17 U.S.C. § 502* reads, in relevant part: "Any court having jurisdiction of a civil action arising under this title may ... grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright."

IV. ANALYSIS

AGT seeks to enjoin Level 3's alleged copyright infringement. To establish a *prima facie* case of copyright infringement, AGT must demonstrate: (1) that it owns a valid copyright; and (2) that Level 3 is copying constituent elements of the work that are original. *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 361, 113 L. Ed. 2d 358, 111 S. Ct. 1282 (1991)*; [*11] *Hi-Tech Video Prods., Inc. v. Capital Cities/ABC, Inc., 58 F.3d 1093, 1095 (6th Cir. 1995).* It is undisputed that AGT owns a valid copyright in the IRTH Software and that, to date, Level 3 continues to use, and thereby copy onto its computers, original elements of the IRTH Software. Nonetheless, AGT may not be able to demonstrate a substantial likelihood of success on the merits of its case because Level 3 may demonstrate that it is using and copying the IRTH Software pursuant to a valid license. *See Worldwide Church of God v. Philadelphia Church of God, Inc., 227 F.3d 1110, 1114 (9th Cir. 2000)* ("The existence of a license creates an affirmative defense to a claim of copyright infringement.") (citations omitted). Thus, the Court turns to the question of whether Level 3 currently possesses a valid license to use the IRTH Software. [3]

> 3 Significantly, Level 3 would not have an affirmative defense based on its good faith belief that it has a license if, in fact, no such license

exists. *Douglass v. Hustler Magazine, Inc., 769 F.2d 1128, 1140 (7th Cir. 1985)* (citing 3 *Nimmer on Copyright § 13.08* (1984)); *All Nations Music v. Christian Family Network, Inc., 989 F. Supp. 863, 868 (W.D. Mich. 1997)* (finding that plaintiffs need not demonstrate willfulness to succeed on an infringement claim).

[*12] **A. Likelihood of Success on the Merits**

AGT contends that, by virtue of Mr. Casey's letter dated March 11, 2002, it terminated Level 3's license to use the IRTH Software. In fact, AGT argues that, when the Agreement was terminated, Level 3 became obligated not only to discontinue its use of the software, but to return the software and any other confidential and proprietary information to AGT. Level 3, on the other hand, while acknowledging that AGT may have terminated the Agreement, contends that its right to use the software was perpetual, and could not be terminated by AGT in the absence of Level 3's breach of its material obligations under the contract, such as its duty to maintain and protect the confidentiality of the IRTH Software.

The Court finds that, pursuant to Section 2(b) of the Agreement, "Operating License," Level 3 retains a perpetual license to use the IRTH Software that could not have been terminated by AGT in the absence of Level 3's breach of its material obligations under the contract. The Court acknowledges that the perpetual license granted by Section 2(b) is prefaced with the phrase "subject to the terms herein," and that one of the other terms in the [*13] Agreement is the "Term" provision set forth in Section 3, which allows the parties to terminate the Agreement in writing sixty days prior to the renewal date of May 11, 2002. These two contractual provisions -- the perpetuity clause in Section 2(b) and the Term provision in Section 3 -- create an apparent inconsistency in the Agreement, making the meaning of the Agreement ambiguous. When the meaning of a contract is ambiguous, the Court may turn to evidence of custom or trade usage to determine the proper interpretation. *Humphrey v. State, Dep't of Mental Health & Mental Retardation, 14 Ohio App. 3d 15, 14 Ohio B. 18, 469 N.E.2d 981, 984 (Ohio Ct. App. 1984)* (discussing the holding of *Thomas v. Guarantee Title & Trust Co., 81 Ohio St. 432, 91 N.E. 183, 7 Ohio L. Rep. 615 (Ohio 1910)).*

During the hearing, Mr. Couture presented uncontroverted testimony that it is a standard practice in the industry to establish separate, and often different, terms for the license to use software and the maintenance and support services attendant to that license. He explained that software licensing contracts often deal with three distinct "silos" or issues, including the license to use the software, [*14] maintenance and support services, and other services, such as training for use of the software. He further testified that it is the Operating License that controls the term of the license to use the software, while the "Term" provision controls the term of the other silos. Finally, Mr. Couture explained that, in light of this industry custom, the phrase "subject to the terms herein" before the perpetuity clause in the Operating License provision refers solely to the terms pertaining to Level 3's material obligations, such as its duties relating to confidentiality, transferability, and payments. None of Mr. Couture's testimony regarding this industry custom was disputed by AGT.

The Court finds persuasive Mr. Couture's testimony regarding the industry custom of establishing distinct terms for the operating license and the other silos of the agreement. In particular, his testimony that the license is perpetual even though the remaining silos are subject to the Term provision is supported by the explicit statement in Section 2(b) of the Agreement that "the Operating License hereby granted is independent of any support services Licensee may procure from AGT." That statement provides a [*15] clear indication that the Operating License provides a perpetual term that may survive independent of the remainder of the Agreement. In addition, pursuant to § 308 of the Uniform Computer Information Transactions Act ("UCITA"), the duration of a license for use of object code computer software is presumed to be perpetual where a copy of the software is delivered to the licensee for a fixed fee, as occurred here. Although UCITA does not govern the transaction between AGT and Level 3, it does provide additional support for the contention that the industry custom is to grant a perpetual license for licenses of software such as the IRTH Software. [4]

4 The Court also notes that in pattern software license agreements, including those that do not contain a separate term provision, a grant of a perpetual license is prefaced by language akin to the phrase "subject to the terms herein." *See, e.g.,* 4 Eckstrom's Licensing -- Forms § 17:44 ("In accordance with the terms hereof, Licensor grants to Licensee ... a perpetual nonexclusive and nontransferable license to use the software product ..."). These standard forms support Mr. Couture's testimony that, in accordance with industry custom, the phrase "subject to the terms herein" refers to Level 3's material obligations, and not the "Term" provision.

[*16] Based on the foregoing, the Court concludes that AGT has failed to demonstrate that it is substantially likely to succeed on the merits of its copyright infringement claim. The Court recognizes the possibility that, at a trial on the merits, AGT may be able to prove

that the parties did not intend to contract in accordance with the industry custom, but rather, intended for the Term provision of Section 3 to limit the temporal scope of the Operating License. More likely, however, Level 3 will set forth a successful affirmative defense by demonstrating that the operating license that it was granted pursuant to the Agreement is perpetual, and still valid despite Mr. Casey's March 11, 2002 letter purporting to terminate the Agreement. [5]

5 During the hearing, AGT also argued that Level 3 had violated its rights under the Agreement, and thereby infringed AGT's copyright, by contracting to use the IRTH Software with more one call centers than were permitted under the contract. In particular, AGT relied on the testimony of Gerald E. Lockhart, Director of Global Field Services for Level 3, that Level 3 had contracts with forty-six one call centers, while the Agreement specified that the IRTH Software was licensed for use with only forty-two one call centers. Subsequent to the hearing, Level 3 submitted the affidavit of Mr. Lockhart, in which he explained that Level 3 currently communicates with only forty-five one call centers, and that it uses the IRTH Software to communicate with forty-one of those one call centers, while it communicates with the additional four one call centers manually through facsimile. Therefore, the Court finds that the Plaintiff has failed to demonstrate a substantial likelihood of success on this basis.

[*17] **B. Irreparable Harm and Harm to Others**

Having found that AGT is not substantially likely to succeed on the merits of its copyright infringement claim, the presumption of irreparable harm must fall out of the case. The Court now proceeds to consider the relative harm to each of the parties from the granting of the injunction sought by AGT. *See Tree Pub. Co., Inc. v. Warner Bros. Records, a Div. of Time-Warner, Inc., 785 F. Supp. 1272, 1276 (M.D. Tenn. 1991)* (finding that the absence of the presumption of irreparable harm does not preclude a plaintiff in an infringement case from demonstrating such harm) (citation omitted).

In the absence of a substantial likelihood that AGT will succeed on the merits of its copyright infringement claim, the Court has difficulty discerning the irreparable harm that could befall AGT in the absence of an injunction. The Court notes, in particular, that Level 3 has continued to use the IRTH Software since AGT purported to terminate its license on May 11, 2002, and AGT has not, as of yet, suffered irreparable harm to its business. Thus, it is unlikely that AGT would suffer such harm during the one month that Level 3 plans to continue [*18] to use the IRTH Software.

Level 3, on the other hand, risks significant harm to its business if the injunction is granted. Although Level 3 has developed contingency plans to deal with the possibility of being forced to discontinue its use of the IRTH Software before its new software is ready for use, none of the plans guarantees Level 3 the effectiveness of the IRTH Software. In particular, Level 3 will be put in a position of having to read manually the over 8000 tickets that it receives daily from one call centers. Currently, Level 3 pays contractors approximately $ 6,000,000 per year, or roughly $ 500,000 per month, [6] to handle the tickets that it receives. Were Level 3 forced to read the tickets manually, the cost of paying contractors to handle the tickets would roughly quadruple. More significantly, if the tickets are handled manually, it is likely that Level 3 would miss some tickets that would immediately be deemed "priorities" with the software. Missing priority tickets could mean that Level 3's buried utilities would be harmed during construction, thereby causing an incalculable amount of damage to Level 3's business.

6 This number constitutes a very rough estimate, reached simply by dividing $ 6,000,000 by twelve. The Court notes, however, that Level 3 pays its contractors significantly more in the summer months, during the construction season, than during the remainder of the year.

[*19] The Court recognizes that a copyright infringer must not be able to defeat a motion for a preliminary injunction by demonstrating that it would suffer harm were it forced to comply with the law by terminating its infringing behavior. *See Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1254 (3d Cir. 1983)* (reasoning that, if an infringer could defeat an injunction by demonstrating the harm that would result from such injunction, "then a knowing infringer would be permitted to construct its business around its infringement") (citations omitted). As discussed above, however, the Court finds that AGT has failed to demonstrate that there is a substantial likelihood that Level 3 is actually infringing its copyright. Thus, the harm that would befall Level 3 were the Court to issue the injunction must be deemed relevant to the Court's analysis. On balance, the Court finds that Level 3 is likely to suffer significant harm if the injunction is issued, while AGT is likely to suffer little or no irreparable harm.

V. CONCLUSION

Based on the foregoing considerations, the Court hereby **DENIES** the Plaintiff's Motion for a Preliminary Injunction.

[*20] **IT IS SO ORDERED.**

ALGENON L. MARBLEY, JUDGE

United States District Court

DATE: July 29, 2002